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17 October 2025

Ms Carmel Donnelly PSM
Chair
Independant Pricing and Regulatory Tribunal
PO Box K35
HAYMARKET NSW 1240
By email: ipart@ipart.nsw.gov.au

Dear Ms Donnelly

Review of IPART's discount rate methodology for local government infrastructure contributions

Blacktown City Council welcomes the opportunity to provide feedback on IPART's review of discount rate methodology for local infrastructure contributions.

Council has not yet used a Net Present Value (NPV) approach in its contributions planning due to the complexity, costs, and forecasting challenges involved. However, we acknowledge the benefits of doing so in the future and welcome stronger guidance, tools, and implementation support. Key points, followed by a detailed submission in response to IPART's consultation questions are provided below:

Guidance is essential – if a NPV method for contributions plans is to be considered, councils would benefit by worked spreadsheet templates, practical training workshops, and clear guidance on acceptable assumptions. This will improve consistency, transparency, and reduce disputes.

Barriers to adoption – forecasting future revenues and costs can be highly uncertain. A single discount rate may not reflect differences across areas, and implementing NPV in contributions plan would require significant resources and technical skills. Administration costs would also increase.

Councils' financing constraints – Councils cannot externally borrow against Section 7.11 contributions revenue, only general revenue. External debt can have high risk if development slows. Councils also cannot raise equity and are restricted to low-risk investment products under the Local Government Act 1993. Accordingly, a discount rate based on the full cost of capital, including an equity component, does not reflect councils' actual funding arrangements.

Discount rate impacts and affordability – higher discount rates increase upfront contribution rates where infrastructure is provided before most development occurs, as is typical in growth areas. This can place additional pressure on housing affordability and may affect the feasibility and timing of development. Conversely, lower discount rates reduce contributions but may risk underfunding local infrastructure. Any changes

to the discount rate methodology should therefore balance the need for adequate infrastructure funding with the imperative to maintain development feasibility and housing affordability.

Methodology adjustments – IPART should consider:

- separate escalation indices for land and works
- adopting a longer bond term (20–25 years) to align with the life of most contribution plans
- Council-specific credit assumptions, as councils do not share State-level credit ratings
- clarifying when nominal versus real discount rates should apply
- providing guidance on appropriate sensitivity testing of key assumptions.

Risks faced by councils – councils face significant downside risks such as higher than estimated construction cost and land value escalation, mismatches between contributions and infrastructure delivery, slower or faster development than forecast, and changes in State Government policy, but have limited capacity to offset these through higher returns. The discount rate methodology should recognise this asymmetric risk profile.

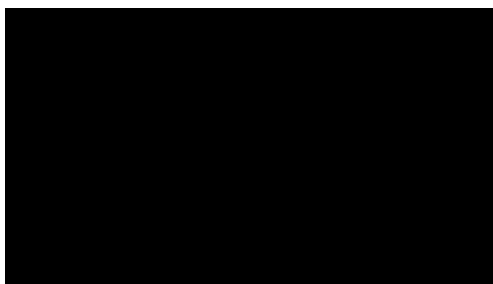
Implementation support – if IPART promotes the use of an NPV approach, it will be essential that clear guidance, worked spreadsheet templates, and practical training are provided to ensure consistency and transparency across councils.

Overall position – we are not currently planning to adopt an NPV approach for contributions plans but would reconsider if stronger guidance, templates, and training was provided.

We would welcome further engagement with IPART on the development of practical guidance and tools to support councils in applying the NPV approach to contributions plans, should it become a preferred methodology.

If you would like any further information on this matter please contact our [REDACTED]

[REDACTED]



1. In addition to our Technical Paper, *Modelling local infrastructure contributions in a present value framework*, would it be useful for IPART to provide guidance on how to determine contribution rates using an NPV approach? If so, what kind of guidance would be useful? For example, this could include practical workshops or a spreadsheet template, or both.

Yes, more guidance would be very helpful if councils are expected to consider an NPV approach for their contributions plans. This could include:

- a worked spreadsheet with examples and formulas
- training workshops for council finance staff and planners
- advice on which growth indicies (for land vs works) are acceptable

This would make the process more consistent and transparent, possibly reduce disputes, and make it easier to update contribution plans.

2. Does your council use an NPV approach in other areas of the organisation?

We only use NPV in a small number of short-term projects where future income is easier to estimate. For most projects we use a simpler straight-line approach.

Capital projects for most councils are based on delivery of public benefits and rarely generate revenue streams. In many cases the use of NPV as a decision methodology, would not see projects progress. This is consistent with the requirements of the Capital Expenditure Guidelines 2010, which requires multiple project evaluations for economic viability of projects.

3. What are the barriers to using an NPV approach for local infrastructure contributions plans?

Some of the main challenges are:

- data uncertainty - it is very hard to accurately forecast income, land acquisition costs and construction costs
- fairness concern - a single discount rate may not suit all different local government areas across NSW, as growth and costs vary widely
- complexity – we have many active contributions plans, so changing the method for current plans, or using a NPV method for new contributions plans would require significant skills and resourcing
- administration costs - more detailed modelling, monitoring and reporting would increase costs
- development activity is determined by external entities based on market conditions and capacity. Councils have limited access to the data needed to predict impacts.

4. Would your council be interested in using an NPV approach for any future or amended contributions plans?

Currently, we are not planning to use NPV for our contributions plans. However, we may reconsider this in the future if more guidance and support are available.

5. Does the cost of capital for a cashflow differ according to who receives the cashflow stream (i.e. a council, a bank, an investor, a firm, etc.)?

Yes. The cost of funding differs depending on who receives the money. Councils generally have fewer financing options compared to businesses or investors.

6. Does the cost of capital for a cashflow differ according to the way the contributions plan is financed (i.e. through debt, equity, or a mix of the two)?

Yes. Councils have limited financing options if they were to borrow more to forward finance contribution plans. Councils can only borrow against their general revenue and not their restricted cash, which is where contributions are held.

In general, councils are statutory bodies, not corporations, and are governed by the *Local Government Act 1993*, which restricts their financial activities to ensure accountability and public interest. Council has no equity holders and funding is sourced from rates, grants, fees and borrowings.

7. Is the relevant cost of capital for the cashflow stream associated with the contributions plan the cost of capital for the council as a whole (however that might be estimated)?

The relevant cost of capital should reflect each council's risk profile, which is generally lower than private firms due to stable general revenue sources and some government backing.

8. Are there any existing parameters of our methodology that you think should be adjusted? This could include credit rating assumptions, sampling dates and periods, market observations, etc.

Some recommendations:

- separate treatment of land vs works escalation rates
- credit rating assumptions - councils may not hold the same rating as State government
- time period of bond yield - may look at longer bond yield as BCC's contribution plans typically run for 20-25 years.

9. What is a council's opportunity cost of using retained earnings to fund local infrastructure?

The opportunity cost is low. Councils are required to keep funds in low-risk, low-return investments. Using savings for infrastructure just means those funds can't earn small returns or be used for other projects.

Council retained earnings may have been impacted over time by the process of implementation of accounting standard changes as required and direct by the Office of Local Government via the Local Government Code of Accounting Practice. This is different to how other entities retained earnings is represented, as they do have the same process of recognising revenue or implementation of changes to accounting standards.

10. Are councils able to reinvest their contributions balances at the discount rate specified by the methodology? For example, a 3.6% rate of return based on our February 2025 update.

The 3.6% return rate (Feb 2025) seems low compared to what councils can earn on term deposits (5.14% Feb 2025).

11. What are the constraints on a council's ability to directly raise funding for local infrastructure covered in contributions plans from sources other than debt?

We have limited options. Grant funding is competitive, uncertain and funds may only be used for the purpose of the grant. Equity financing is not available. We are also constrained by legislative and policy rules such as the capping of the contributions associated with the NSW Government's Local Infrastructure Growth Scheme (LIGS) which commenced in 2016 but was ended haphazardly in 2020 with Council unable to claim approximately \$250.1 million (plus escalation) from the government.

Council's ability to control its own revenue streams, has been impacted by Rate Pegging since 1977, with statutory set fees and charges for services it provides that do not reflect the costs of providing the services.

As indicated in numerous reports and reviews of local governments across Australia, there has also been cost shifting for other levels of government without the appropriate revenue. Councils have limited options to raise revenue and therefore often will only deliver works under contribution plans, when funds have been received or utilisation of pools and borrowings between contribution plans. Council would need to complete a Special Rate Variation process to increase its rates revenue.

12. Would it be appropriate to include the cost of equity in our discount rate methodology?

Equity costs are not relevant, as councils cannot raise equity. A debt-only or government bond-based approach would be more realistic.

13. What are the risks faced by a council in providing local infrastructure?

Some of the biggest risks include:

- rising land prices
- volatile construction costs
- timing mismatches between when contributions are received and when infrastructure is needed
- development occurring faster or slower than expected
- changes in State Government rules or policies.

14. What listed companies with a known cost of capital undertake similar activities to councils' provision of local infrastructure? 21

It is difficult to identify true equivalents, as councils are not-for-profit and operate under legislative frameworks and building for the wider community.

15. For these listed companies, what range of values or point estimate would you recommend for beta values, gearing ratios, or overall cost of capital?

There are no direct comparisons. Councils are not-for-profit, operate under strict legislation, and provide community infrastructure.

16. Why do councils generally not use debt to fund infrastructure development ahead of receipt of contributions revenue?

The main reason is the uncertainty of repayment timing from future contributions. There are also constraints in borrowing. Councils can only borrow against their general-purpose revenue and not restricted cash (where the contributions revenue is). If we borrow to fund infrastructure in our contribution plans, then other projects will be affected and may not be able to progress. There is also a risk in carrying debt if development occurs slower than expected.

There are also issues with the technical process of borrowing from General Funds to meet loan repayments when there have been insufficient cash receipts to meet the obligation. To borrow from externally restricted funds like S7.11 developer contributions, requires ministerial approval, but the NSW Local Government Act 1993 and NSW General Regulations are silent on requirements for General Funds loaning funds to restricted funds.

17. For your contributions plan(s), how fast have lots been developed compared to council's expectation at the time the contribution rates were set?

This is difficult to quantify. In areas that have large landowners/developers lots have developed quickly. However, where ownership is fragmented, lots take much longer to develop.

18. Are the revenues earned by councils, and the expenditures incurred by councils, in relation to developer contributions subject to taxation or a tax equivalent regime? How are any such tax effects accounted for in setting contribution rates?

Councils are not subjected to taxation on contributions revenue. No tax-equivalent regime applies.

19. How does the discount rate used for modelled contributions impact the timely provision of local infrastructure and the feasibility of housing development?

Higher discount rates - > lower present value of future costs, reducing upfront contributions, but risk of underfunding infrastructure.

Lower discount rates - > higher contributions, which may affect affordability.

BCC does not use the NPV method for modelling contributions yet, however the discount rate has a direct balancing effect between developer feasibility and community infrastructure provision.

20. Are there any other issues related to this review that you would like to tell us about?

Concerns /issues that we may have:

- fairness concerns with applying a single discount rate across land and works and across the entire NSW, given different escalation patterns.
- importance of transparency in publishing both discount rate methodology and acceptable escalation assumptions
- given the complexity of NPV calculations, if this method is the preferred method, then it would be appreciated if a lot more guidance such as a spreadsheet template with acceptable assumptions be given as well.